

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 8th day of
June, 2016.

In the Matter of Missouri-American)
Water Company's Request for Authority to)
Implement A General Rate Increase for)
Water and Sewer Service Provided in its)
Missouri Service Area.)

File No. WR-2015-0301

ORDER REGARDING JOINT REQUEST FOR CLARIFICATION

Issue Date: June 8, 2016

Effective Date: June 8, 2016

The Commission issued a report and order on May 26, 2016, effective June 25, that resolves the issues surrounding Missouri-American's request for water and sewer rate increases. That report and order rejected the tariffs filed by Missouri-American and authorized the company to file tariffs sufficient to recover revenues as determined by the Commission and to otherwise comply with the Commission's report and order. On June 3, Missouri-American and the Commission's Staff filed a joint request asking the Commission to clarify four aspects of its report and order.

Upon receiving the joint request for clarification, the Commission issued an order directing that any party wishing to respond to the joint request do so no later than 1:00 p.m. on June 7. Public Counsel and the Missouri Industrial Energy Consumers (MIEC) filed timely responses. Public Counsel addressed only the second request for clarification and offered its opinion that sewer customers should not be required to pay more than their cost of service so that if that cost of service is reduced their rates should also be reduced. MIEC's response asserts that the entire issue surrounding allocation of sewer costs was

resolved by the stipulation and agreement concerning revenue requirement, which the Commission approved on April 6, 2016. MIEC indicates it intends to seek rehearing on that question, and suggests that failure to amend the report and order to recognize the resolution contained in the approved stipulation and agreement could void the stipulation and agreement on revenue requirement.

The Commission finds that clarification is needed to allow Missouri-American to draft new tariffs to comply with the Commission's report and order. The clarifications described in this order merely clarify the decisions of the Commission as described in its report and order. They are not themselves independent decisions.

A. Allocation of Corporate Expense to Small Water and Sewer Companies

Missouri-American and Staff ask whether, in limiting the allocation of corporate expense to small systems in the manner described by Missouri-American's witness, the Commission intended to limit that expense for both small water and small sewer districts. In finding of fact number 43 on page 19, the Commission found that Missouri-American's cost allocation study appropriately limited allocation of corporate and joint and common costs to small water and small sewer districts because such small districts do not require the same level of corporate services as do the larger districts and because not limiting the allocations in that manner would allocate much higher per customer costs to customers in the small districts. The described allocation method did not differentiate between water and sewer districts, so the Commission will clarify its report and order by affirming that the corporate expense allocation limitation applies to both small water districts and small sewer districts.

B. Resulting Rates for Sewer Districts Other Than Arnold

The Commission's report and order consolidated all existing sewer districts into two districts, with Arnold in Sewer District 1, and all other districts in Sewer District 2. The report and order also provided that the rates currently paid by customers in the individual sewer systems should not be changed unless those rates were not sufficient to provide the company with sufficient sewer revenue. The report and order also stated that if there was a revenue shortfall, even after application of the limited corporate expense allocation, then that shortfall should be recovered "pro rata among all the consolidated sewer systems and their individual rates shall be adjusted as necessary." Missouri-American and Staff now ask what is to be done if there is surplus sewer revenue from District 2 after application of the limited corporate expense allocation.

The Commission's intent was to require the sewer districts to cover their own costs without transferring revenue from water customers. If sewer revenue now exceeds the amount necessary to cover the costs of the sewer district, the rates charged to the sewer customers should be reduced pro rata on an equal percentage basis among the existing sewer systems in the same manner as they would have been increased if there was a sewer revenue shortfall.

C. Limitation on Allocation of Corporate Costs to the Arnold Sewer District

The Commission's report and order adopted Missouri-American's proposal to limit allocation of corporate expenses to small water and sewer districts with less than 3,000 customers. Arnold, which has more than 3,000 sewer customers, was established as its own sewer district and the Commission directed that it be responsible for its own costs. In its accounting schedules, Missouri-American had proposed to allocate only \$140,000 in corporate costs to the Arnold District. Staff's allocation method, which was used to

allocate corporate costs to districts with more than 3,000 customers, would allocate \$616,808 to the Arnold District. Missouri-American and Staff ask which amount should be allocated to the Arnold District.

The rationale for the Commission's decision to limit corporate expense allocations for small water and sewer districts does not apply to the larger Arnold sewer district. Therefore, it is appropriate to apply the cost allocations applicable to the larger districts with more than 3,000 customers as described by Staff.

D. Rate Structure for Residential, Small Commercial, Small Industrial and Other Public Authority Customers in Districts 2 and 3.

The Commission's report and order established a one-block uniform volumetric rate in all the water districts for all rate classes, as proposed by Missouri-American. Missouri-American proposed to use its St. Louis Metro rate structure statewide, thereby consolidating Residential, Small Commercial, Small Industrial and OPA customers in all water districts into a single Rate A. Customers within Rate A are differentiated based on the size of the meter serving the premises. Staff proposed to retain the existing customer classes in water districts 2 and 3, which do not include the St. Louis Metro area.

The Commission clarifies that it intended to establish uniform customer water rates across the state to the greatest degree possible. Therefore, it intended to adopt Missouri-American's proposal to apply its St. Louis Metro rate structure statewide.

This order is intended to clarify the existing report and order, not to supplement that report and order. It will be made effective on the date it is issued so that compliance tariffs can be drafted. If any party takes issue with the report and order, as clarified by this order, their appropriate remedy is to seek reconsideration or rehearing of the report and order before its June 25 effective date. MIEC's response indicates it will be filing an application

for rehearing concerning the report and order. The Commission will consider and appropriately respond to that and any other applications for rehearing when they are filed.

THE COMMISSION ORDERS THAT:

1. The Report and Order issued in this case on May 26, 2016, is clarified as indicated in the body of this order.
2. This order shall be effective when issued.



BY THE COMMISSION

A handwritten signature in cursive script that reads "Morris L. Woodruff".

Morris L. Woodruff
Secretary

Hall, Chm., Stoll, Kenney, Rupp, and
Coleman, CC., concur.

Woodruff, Chief Regulatory Law Judge